



Mafikeng Local Municipality (Registration number NW 383)  
Annual Financial Statements  
for the year ended June 30, 2013

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## General Information

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**Legal form of entity** Local Municipality

**Nature of business and principal activities** Provision of municipal services in terms of the Municipal Finance Management Act No. 56 of 2003 and the Municipal System Act No. 32 of 2000

### Mayoral committee

Executive Mayor

Cllr Miga N L  
Cllr Leepile M : MMC (Planning & Development)  
Cllr Lomo F L : MMC (Community Services)  
Cllr Mothupi H R : MMC (Corporate Services)  
Cllr Poenyane K A : MMC(Office of the Mayor)  
Cllr Tirano R : MMC (Local Economic Development)  
Cllr Mokgoetsi K K M : MMC(Infrastructure)  
Cllr Makolomakwa T J: MMC (Finance)  
Cllr Mpengezi N : MMC (Special Projects)  
Cllr Tabane P M : MMC: (Communication)  
Cllr Legalatladi G U :MMC (Public Safety)

Councillors

Cllr Jabanyane M D (Speaker)  
Cllr Mafete M E (Single Whip of Council)  
Cllr Nkoane G J : Chairperson(MPAC)  
Cllr Mafabatho A P  
Cllr Maloisane S S N  
Cllr Mosenogi I S  
Cllr Nthutang B J  
Cllr Thomas G  
Cllr Molete E F K  
Cllr Ngqobe N R  
Cllr Babedi P O  
Cllr Ntshabele T  
Cllr Diakanyo K B  
Cllr Moamogwe N  
Cllr Mosikare M D  
Cllr Lesejane R S  
Cllr Motsamai I S  
Cllr Moremedi S D  
Cllr Molale P P  
Cllr Seepamore K L  
Cllr Mhatlhe K K  
Cllr Ngobeni B S  
Cllr Johnson O J  
Cllr Nkolisa B J  
Cllr Novolo G S  
Cllr Lolwane A N  
Cllr Moeti M E  
Cllr Moepi D P  
Cllr Nkosi P  
Cllr Mathakathaka K G  
Cllr Mokolemako M C  
Cllr Dintoe M M  
Cllr Magogodi M P  
Cllr Dingile M E  
Cllr Mahura S M  
Cllr Mmono C D

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## General Information

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Cllr Ngqobe M  
Cllr Lekhobe M E  
Cllr Chanda M M  
Cllr Chili E M  
Cllr Africa A.J  
Cllr Selepe T L  
Cllr Mtunzi D T  
Cllr Motshegoa T  
Cllr Matlholwa M R  
Cllr Sephoti M W  
Cllr Lebelela T W  
Cllr Kgaje G K  
Cllr Matlhoko S M  
Cllr Theologo J R  
Cllr Molete G M  
Kgosi Shole G G  
Kgosi Seatlholo G A

<b>Grading of local authority</b>	Grade 4
<b>Chief Finance Officer (CFO)</b>	Mr. S S Mmope
<b>Accounting Officer</b>	Mr. K F Rabanye
<b>Registered office</b>	Cnr University Drive & Hector Peterson Road Mmabatho 2735
<b>Business address</b>	Cnr University Drive & Hector Peterson Road Mmabatho 2735
<b>Postal address</b>	Private Bag X63 Mmabatho 2735
<b>Bankers</b>	Standard Bank of South Africa Business Centre, Nelson Mandela Drive, Mafikeng, 2745
<b>Auditors</b>	Auditor-General of South Africa 124 Kock Street Rustenburg 0300

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

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### Abbreviations

COID Compensation for Occupational Injuries and Diseases
CRR Capital Replacement Reserve
DBSA Development Bank of South Africa
SA GAAP South African Statements of Generally Accepted Accounting Practice
GRAP Generally Recognised Accounting Practice
GAMAP Generally Accepted Municipal Accounting Practice
HDF Housing Development Fund
IAS International Accounting Standards
IMFO Institute of Municipal Finance Officers
IPSAS International Public Sector Accounting Standards
ME's Municipal Entities
MEC Member of the Executive Council
MFMA Municipal Finance Management Act
MIG Municipal Infrastructure Grant (Previously CMIP)

# **Mafikeng Local Municipality**

Financial Statements for the term ending 30 June 2013

## **Accounting Officer's Responsibilities and Approval**

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I, as Accounting Officer, am required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is my responsibility to ensure that the Annual Financial Statements fairly present the state of affairs of the Municipality as at the end of the financial year and the results of its operations and cash flows for the period ended. The external auditors are engaged to express an independent opinion on the Annual Financial Statements and was given unrestricted access to all financial records and related data.

The Annual Financial Statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The Annual Financial Statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I acknowledge that I am ultimately responsible for the system of internal financial control established by the Municipality and place considerable importance on maintaining a strong control environment. To enable me to meet these responsibilities, I set the standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Municipality and all employees are required to maintain the highest ethical standards in ensuring the Municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Municipality is on identifying, assessing, managing and monitoring all known forms of risk across the Municipality. While operating risk cannot be fully eliminated, the Municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

I am of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Annual Financial Statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

I have reviewed the Municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, I am satisfied that the Municipality has access to adequate resources to continue in operational existence for the foreseeable future.

The Municipality's operations depend on a number of sources of revenue, ranging from National Government to its own sources and donations. There are no signs or indications that any of these sources will be significantly curtailed. As such, the Annual Financial Statements are prepared on the basis that the Municipality is a going concern and that the Municipality has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

Although I am primarily responsible for the financial affairs of the Municipality, I am supported by the Municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the Municipality's Annual Financial Statements. Thus, the Annual Financial Statements will be examined by the Municipality's external auditors, with an objective of expressing an independent opinion on the Annual Financial Statements.

The Annual Financial Statements set out on page 6 to 61, which have been prepared on the going concern basis, were approved and signed by me on 30 August 2013.

**Accounting Officer**

**Mr. Rabanye K. F.**

## Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

### Statement of Financial Position (Figures in Rand)

	Note (s)	2013	2012
<b>ASSETS</b>			
<b>Current Assets</b>			
Inventories	8	31 695 419	31 254 771
Receivables from Exchange Transactions	10	2 501 871	4 802 489
Other Receivables from Non-exchange Transactions	9	31 184 961	7 188 063
Consumer Debtors	11	58 889 680	34 968 690
Shares & Unit Trusts	7	3 999 124	8 786 926
Money Market Investment	45	46 152 781	28 552 928
Cash and Cash Equivalents	12	5 062	16 781
		<b>174 428 898</b>	<b>115 570 648</b>
<b>Non-Current Assets</b>			
Investment Property	2	397 972 720	397 972 720
Property, Plant and Equipment	3	418 065 808	426 846 591
Intangible Assets	4	1 135 869	1 135 869
		<b>817 174 397</b>	<b>825 955 180</b>
<b>Total Assets</b>		<b>991 603 295</b>	<b>941 525 828</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Other Interest Bearing Liabilities	13	3 992 000	3 822 911
Finance Lease Obligation	14	942 700	1 855 504
Trade and Other Payables	17	100 664 862	98 965 258
VAT Payables	18	10 858 912	11 620 796
Consumer Deposits	19	5 236 228	4 905 111
Retirement Benefit Obligation	6	-	-
Unspent Conditional Grants and Receipts	15	48 833 361	33 162 599
Provisions	16	6 700 000	6 648 215
Bank Overdraft	12	11 586 341	29 992 590
		<b>188 814 403</b>	<b>190 972 984</b>
<b>Non-Current Liabilities</b>			
Other Interest Bearing Liabilities	13	28 039 891	31 787 606
Finance Lease Obligation	14	10 331	943 838
Retirement Benefit Obligation	6	22 336 919	22 336 919
Provisions	16	43 434 507	9 235 796
		<b>93 821 648</b>	<b>64 304 159</b>
<b>Total Liabilities</b>		<b>282 636 051</b>	<b>255 277 143</b>
<b>Net Assets</b>		<b>708 967 244</b>	<b>686 248 685</b>
<b>NET ASSETS</b>			
<b>Reserves</b>			
Housing Infrastructure Grant	46	3 470 046	3 470 046
Government grant reserve	47	75 516 102	75 516 102
Insurance reserve	48	77 795	63 987
Accumulated surplus		629 903 301	607 198 550
<b>Total Net Assets</b>		<b>708 967 244</b>	<b>686 248 685</b>

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Statement of Financial Performance (Figures in Rand)

	Note (s)	2013	2012
<b>REVENUE</b>			
Property Rates	21	105 664 338	97 628 211
Service Charges	22	106 523 941	91 651 726
Rental of Facilities and Equipment		829 204	3 423 214
Interest Received - Trading		33 604 196	29 718 851
Fines		2 678 817	2 419 237
Licenses and Permits/Certificates		4 833 417	5 102 711
Government Grants & Subsidies	23	155 940 071	150 446 222
Fair Value Adjustment	2	-	-
Miscellaneous Revenue		29 586	73 548
Fees Earned		1 468 900	1 117 684
Commissions Received		324 950	300 030
Unwound Interest - Long Term Debtors		-	-
Recoveries		441 733	258 741
Other Income		73 816	55 439
Building Plans Fees		265 712	302 720
Blocked Drains Charges		35 950	149 574
Interest Received - Investment	30	2 917 571	2 460 053
<b>Total Revenue</b>		<b>415 632 201</b>	<b>385 107 961</b>
<b>EXPENDITURE</b>			
Personnel Costs	27	170 562 091	165 179 558
Remuneration of Councillors	28	18 304 390	16 792 206
Depreciation and Amortisation	31	27 764 412	26 182 428
Finance Costs	32	3 049 092	3 893 727
Debt Impairment	29	20 390 554	9 676 324
Collection Costs	44	1 203 456	1 122 276
Repairs and Maintenance		24 733 378	24 944 023
Bulk Purchases	35	47 090 546	51 175 554
Contracted Services	44	5 002 447	6 657 126
General Services	25	83 695 312	66 622 890
<b>Total Expenditure</b>		<b>401 795 678</b>	<b>372 246 112</b>
<b>Surplus / (deficit) for the term</b>		<b>13 836 523</b>	<b>12 861 849</b>

## Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

### Statement of Changes in Net Assets (Figures in Rand)

	Notes	Total Reserves	Accumulated Surplus	Total Net Assets
<b>Balance at 01 July 2011</b>		<b>78 986 148</b>	<b>593 421 070</b>	<b>672 407 218</b>
Changes in net assets		-	-	-
Surplus for the year		-	12 861 849	12 861 849
Prior year Adjustment	49	-	915 631	915 631
Reserves Additions/ Expenses	46 - 48	63 987	-	63 987
<b>Total Changes</b>		<b>63 987</b>	<b>13 777 480</b>	<b>13 841 467</b>
<b>Balance at 01 July 2012</b>		<b>79 050 135</b>	<b>607 198 550</b>	<b>686 248 685</b>
Changes in net assets		-	-	-
Surplus for the year		-	13 836 523	13 836 523
Prior year Adjustment	49	-	8 868 228	8 868 228
Reserves Additions/ Expenses	46 - 48	13 808	-	13 808
<b>Total Changes</b>		<b>13 808</b>	<b>22 704 751</b>	<b>22 718 559</b>
<b>Balance at 30 June 2013</b>		<b>79 063 943</b>	<b>629 903 301</b>	<b>708 967 244</b>



# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Cash Flow Statement (Figures in Rand)

	Note (s)	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Sale of Goods and Services		220 898 905	268 002 607
Grants		164 611 657	120 687 370
Interest Income		2 917 571	2 460 053
Other Receipts		3 921 033	1 416 190
<b>Total Receipts</b>		<b>392 349 166</b>	<b>392 566 220</b>
<b>Payments</b>			
Employee Costs		-188 866 481	-181 971 764
Suppliers		-148 182 383	-165 625 607
Finance Costs		-3 049 092	-3 893 727
<b>Total Payments</b>		<b>-340 097 956</b>	<b>-351 491 098</b>
<b>Net Cash Flows From Operating Activities</b>	36	<b>52 251 210</b>	<b>41 075 122</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	3	-15 633 501	-19 070 456
Purchase of Other Intangible Assets	4	-	-
Increase in Shares & Unit Trusts		-129 704	-157 424
Increase in Money Market Investments		-12 682 347	-26 178 776
Movement in Reserves		13 808	64 281
<b>Net Cash Flows From Investing Activities</b>		<b>-28 431 744</b>	<b>-45 342 375</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of Other Interest Bearing Liabilities		-3 578 625	-5 900 177
Finance Lease Payments		-1 846 311	-2 106 982
<b>Net Cash Flows From Financing Activities</b>		<b>-5 424 936</b>	<b>-8 007 159</b>
<b>Net Increase/ (Decrease) in Cash and Cash Equivalents</b>		<b>18 394 530</b>	<b>-12 274 413</b>
Net Increase/ (Decrease) in Cash and Cash Equivalents		18 394 530	-12 274 413
Cash and Cash Equivalents at the Beginning of the Year	12	-29 975 809	-17 701 096
<b>Cash and Cash Equivalents at the End of the Year</b>		<b>-11 581 279</b>	<b>-29 975 509</b>

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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### 1. Presentation of Financial Statements

#### 1.1 Statement of Compliance

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised

Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant notes to the Financial Statements.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention unless specified otherwise. They are presented in South African Rand.

#### STATEMENT AND INTERPRETATION NOT YET EFFECTIVE

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality

- GRAP 18 - Segment Reporting
- GRAP 21 - Impairment of Non-cash-generating Assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers) )
- GRAP 24 - Presentation of Budget Information
- GRAP 25 - Employee Benefits
- GRAP 26 - Impairment of Cash-generating Assets
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments
- GRAP 105 - Transfer of Functions between Entities Under Common Control
- GRAP 106 - Transfer of Functions between Entities Not Under Common Control
- GRAP 107 - Mergers
- GRAP 107 - Mergers

#### 1.2 Accounting estimates and judgements

##### Key source of estimation and judgements

The preparation of financial statements in conformity with GRAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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Although these estimates are based on management's best knowledge of the current events and actions they may undertake in the future actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. In the process of applying the municipality's policies, management has made the following significant accounting judgments, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements and these are consistent with the previous period.

### **Impairment of Trade and Other Receivables**

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their payment history. Debtors will be analyzed in terms of concentrations of individual risk classes showing each individual ageing.

### **Provisions and contingent liabilities**

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

### **Provisions and other post-retirement benefits**

The cost of defined benefit pension plans and other employment medical benefits is determined using actuarial valuations.

The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Additional information is disclosed in Note 6

### **Classification as investment property**

The municipality has reviewed its property portfolio and determined which items of land and buildings are held to earn rental revenue or for capital appreciation. Land and buildings fulfilling these requirements have been classified as investment property, whilst the remainder of the portfolio has either been classified as property, plant and equipment or inventory depending on management's intention in dealing with these properties.

### **Depreciation and carrying value of items of property, plant and equipment**

The estimation of the useful lives of assets is based on management's judgment. Management considers the impact of technology, availability of capital funding, service requirements, and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgment whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

### **1.3 Investment property**

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is held at fair value.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects estimated market conditions at the reporting date whilst provisional amounts reflect the amounts determined using a reasonable basis such as a valuation roll.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

The fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

### 1.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment or at fair value where assets have been acquired by grant or donation.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery capabilities of the assets are enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally assessed standard of performance, it is regarded as repairs and maintenance, and is expensed.

The municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than for motor vehicles.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value, and is recognised in the Statement of Financial Performance.

Property, plant & equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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Assets held under finance leases are depreciated over their useful lives on the same basis as owned assets or, where appropriate, the terms of the relevant lease and the depreciation are recognised in the Statement of Financial Performance.

Assets under construction are carried at cost. Depreciation of an asset commences when the asset is ready for its intended use.

The useful lives of items of have been assessed as follows:

Item	Average useful life
Buildings	30
Furniture and fixtures	5-10
Motor vehicles	7-10
Office equipment	5-7
IT equipment	5
Emergency Equipment	5-10
Refuse Tankers	5-10
Infrastructure	10-40
· Roads and Stormwater	5-150
· Refuse	20-50
· Electricity	10-100
· Water	10-200
· Sewerage	10-200
· Housing	20-100
Community	15-30
· Buildings	20-100
· Recreational facilities	20-30
· Security	5-10
· Halls	20-30
· Libraries	20-30
· Parks and gardens	15-20
· Other assets	15-30
Other property, plant and equipment	4-20
· Building	20-100
· Specialist vehicles	10-35
· Other vehicles	5-30
· Office furniture	3-15
· Furniture and fittings	5-20
· Watercraft	15-30
· Bins and containers	5-15
· Specialised plant and equipment	5-35
· Other plant and equipment	2-25
· Landfill sites	20-100

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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· Quarries	20-100
· Emergency equipment	5-25
· Computer equipment	3-15

### Impairment of property, plant and equipment

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

### 1.5 Heritage assets

A heritage asset is defined as an asset that has cultural, environmental, historical, natural, scientific, technological or artistic significance, and are held and preserved indefinitely for the benefit of present and future generations.

A heritage asset that qualifies for recognition as an asset shall be measured at its cost. Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Heritage assets are not depreciated, as their long economic life and high residual value mean that any depreciation would be immaterial.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

### 1.6 Site restoration and dismantling cost

Where the municipality has an obligation to dismantle, remove and restore items of property, plant and equipment, such obligations are referred to as 'decommissioning, restoration and similar liabilities'. These costs include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located and the obligation for which municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. The costs are capitalised to the cost of the relevant assets.

### 1.7 Financial instruments

#### Classification

The Financial instruments are recognised when the municipality becomes a party to the contractual provisions of the instrument and are initially measured at fair value plus, in the case of a financial asset or liability, not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability:

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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The municipality classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

### Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

### Financial instruments designated as at fair value through surplus or deficit

All financial instruments are initially measured at fair value. The financial instruments are subsequently recognised at fair value through profit and loss

### Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost.

Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the amount expected to be recovered in future. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit. Interest is charged on overdue amounts.

Amounts receivable within 12 months from the date of reporting are classified as current.

Trade and other receivables are classified as loans and receivables.

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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### Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Liabilities for annual leave (accrued leave pay) and annual bonus are recognised as they accrue to employees. Accrual is based on the potential liability of the Municipality. Liabilities for goods and services rendered to the municipality before yearend are accrued based on management's estimate if the invoice or statement have not been issued.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments that are readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months and are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets, loans and receivables. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position. Cash and cash equivalents and bank borrowings are subsequently recorded at amortised cost.

### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

### Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.



# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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### Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

### Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

### Derecognition

#### Financial assets

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the municipality has transferred substantially all risks and rewards of ownership, or when the municipality loses control of contractual rights that comprise the assets.

#### Financial liabilities

A financial liability is derecognised when the obligation under the contract is discharged, cancelled or expires.

### 1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and

#### Finance leases - municipality lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability.

Any contingent rents are expensed in the period in which they are incurred.

Assets leased under operating leases, except for property interests held by the municipality as investment property, are not recognised in the statement of financial position.

### **Operating leases - municipality as lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

### **Operating leases -municipality as lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

### **1.9 Inventories**

Inventories consist of raw materials, work in progress, consumables finished goods and unsold properties. Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

# Mafikeng Local Municipality

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The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the fair value as at the date of acquisition. Cost is generally determined using the first-in-first-out principle except where stated otherwise.

Unsold properties are measured at the lower of cost and net realisable value. Cost is primarily determined by reference to Valuation roll values as at the date of initial recognition or total cost of servicing the land. Net realisable values are based on the latest valuation roll values less estimated cost to sell.

### **1.10 Non-current assets held for sale and disposal groups**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

### **1.11 Impairment of cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return.

When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

### Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.12 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Liabilities for short-term employee benefits that are unpaid at year-end are measured at the undiscounted amount that the municipality expects to pay in exchange for that service and had accumulated at the reporting date.

#### Defined contribution plans

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit in the period in which the service is rendered by the relevant employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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The municipality contributes to various national-and provincial-administered defined benefit plans on behalf of its qualifying employees. These funds are multi-employer plans and are accounted for as defined contribution plans as there is no consistent and reliable basis available for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. The contributions to fund obligations for the payment of retirement benefits are expensed in the year it becomes payable. These multi-employer plans are actuarially valued annually on a national-or provincial level using the projected unit credit method. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

### Defined benefit plans

The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are recognised in full in the year they are incurred.

The municipality provides certain post- retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of all of the medical aid funds with which the municipality is associated, a member is entitled to remain a continued member of the medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. These medical aid funds are classified as defined benefit plans.

The current service cost is recognised as a period expense in the statement of financial performance and is matched to the benefit received during the working life of the employee. The current service cost includes the expense for benefits received by the employee currently in service and the cost of funding the employee when no longer in service. The expense for the year is included in the employee benefits expense in the statement of financial performance.

Where some of the employees are not members of any qualifying medical aid scheme as at reporting date, the municipality accrues 50% of such potential liability. This management estimate is meant to cater for employees who are likely to join the qualifying medical schemes in future but before retirement.

### Other long-term employee benefits

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality. The cost for each employee is computed at each reporting date based on the probability of being employed at each service award date, taking into account the assumed rates of withdrawal, early retirement and death. On determining this liability due allowance is made for future salary increases. Actuarial gains and losses are recognised in full in the year they are incurred.

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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The municipality's net obligation in respect of long service awards is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value.

The current service cost is recognised as a period expense in the statement of financial performance and is matched to the benefit received during the working life of the employee. The current service cost includes the expense for benefits received by the employee currently in service. The expense for the year is included in the employee benefits expense in the statement of financial performance.

Where some of the employees have already reached the prescribed milestones but payments for the equivalent leave days accrued has not been made by year-end, the amount is recognised as accruals.

### 1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

### Site Restoration, Onerous contracts, Reimbursments, Restructuring, Long Service Award

#### Site Restoration

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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In accordance with applicable legal requirements, a provision for site restoration in respect of landfill sites is recognised when the land is contaminated. The related expense is capitalised against the cost of the landfill sites.

### Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the municipality from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract.

### Reimbursements

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

### Restructuring

A provision for restructuring is recognised when the municipality has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced as publicly.

### Long Service Award

In terms of the Collective Bargaining Agreement, employees who achieve a certain predetermined milestone of service within the municipality are entitled to leave days or cash equivalent. A provision is made at the end of each balance sheet date based on the estimated number of employees who are likely to achieve the milestones in the future. The provision is discounted using a reasonable discounting rate.

### 1.14 Revenue

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- (1) the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- (2) the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (3) the amount of revenue can be measured reliably;
- (4) it is probable that the economic benefits associated with the transaction will flow to the municipality; and
- (5) the costs incurred or to be incurred in respect of the transaction can be measured reliably.



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Financial Statements for the term ending 30 June 2013

## Accounting Policies

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Revenue from the rendering of services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts.

### Services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or services potential associated with the transaction will flow to the municipality; and ;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably

### Service Charges

Service charges relating to distribution of water are based on consumption. Meters are read on a regular basis consumption is recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made on a monthly basis when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is raised based on the average monthly consumption. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters are read. These adjustments are recognised as revenue in the invoicing period.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property receiving services. Tariffs are determined per category of property and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation services are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council. Revenue is

### Interest, royalties and dividends

#### Interest earned and rentals received

Interest income is recognised in surplus or deficit as it accrues, using the effective interest method. Interest earned on unutilised conditional grants is recognised as an unspent conditional grants liability if the grant conditions indicate that interest is payable to the grantor.

# **Mafikeng Local Municipality**

Financial Statements for the term ending 30 June 2013

## **Accounting Policies**

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Rental income from operating leases is recognised on a straight line basis over the lease term.

### **Dividends**

Dividends are recognised on the date that the municipality's right to receive the dividend has been established.

### **Royalties**

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreements.

### **Other**

### **Tariff charges**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

### **Housing rental and instalments**

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised as it accrues in surplus or deficit using the effective interest method.

### **1.15 Revenue from non-exchange transactions**

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and, if applicable, there has been compliance with the relevant legal requirements or restrictions

### **Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure**

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

### **Rates and Taxes**

Assessment Rates and fixed property valuations are conducted in terms of the Local Government: Municipal Property Rates Act No. 6 of 2004.

# **Mafikeng Local Municipality**

Financial Statements for the term ending 30 June 2013

## **Accounting Policies**

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Revenue from rates, including collection charges and penalty interest, is recognised on a monthly basis when the taxes are levied as this is regarded to be the date when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and there has been compliance with the relevant legal requirements.

A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

The charges are based on the approved value of the land and buildings multiplied by the approved tariff (cents in the rand) Assessment Rates is levied in July for the entire financial year end and payable by the 30 September, alternatively levied at proportionately 1/12 per month end payable monthly.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

### **Fines**

Revenue from the issuing of fines is recognised on receipt.

### **Donations and contributions**

Revenue from donations is recognised when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and any restrictions associated with the donation have been met.

Revenue from donations is measured at the fair value of the consideration received or receivable, which is the cash amount received or where the donation is in the form of property, plant and equipment, the fair value of the property, plant and equipment received or receivable.

### **Unconditional grants and receipts**

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached stipulations, the grants are recognised as revenue or, if the recognition criteria had been met, as assets in the reporting period in which they are received or receivable.

### **Conditional grants and receipts**

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant.

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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Interest earned on investments is treated in accordance with grant conditions. If interest is payable to the grantor, it is recognised as a liability and if not, it is recognised as interest earned in the statement of financial performance.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability.

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

### **Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### **1.16 Investment income and expenses**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in surplus or deficit, using the effective interest method. Dividend income is recognised in surplus or deficit on the date that the municipality's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets through profit or loss and impairment losses recognised on financial assets.

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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Borrowing costs are recognised in surplus or deficit using the effective interest method.

### 1.17 Consumer deposits

Consumer deposits are charged when new water and/or electricity accounts are opened except for owner occupied proportions. The amounts vary per type of consumer and are approved by Council as part of the tariff structure.

### 1.18 Comparative figures

When the presentation or classification of items in the annual financial statements are amended, comparative amounts are reclassified. The nature and amounts of reclassifications as well as the reasons are disclosed in the notes to the financial statements.

### 1.19 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000) and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the municipality's supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the relevant authority, it is treated as a receivable until it is recovered or written off as irrecoverable.

### 1.22 Presentation of currency

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Accounting Policies

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These annual financial statements are presented in South African Rand, which is the municipality's functional currency. All financial information has been rounded to the nearest Rand.

### 1.23 Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 1.24 Budget information

Mafikeng Local Municipality is subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period has been included in the annual financial statements.

The Statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by GRAP 1.

### 1.25 Tax

#### Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

- The annual financial statements have been prepared on the assumption that the municipality will continue to operate on a going concern basis for at least the next twelve months.

### 1.26 Net reserves

Net reserves are a residual interest in the assets of an municipality after deducting all of its liabilities from the total municipal assets.

### 1.27 Borrowing costs

# **Mafikeng Local Municipality**

Financial Statements for the term ending 30 June 2013

## **Accounting Policies**

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It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.28 Housing development fund**

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### **1.29 Capital commitments**

Capital commitments disclosed in the financial statements represents the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

### 2. Investment Property

	2013			2012		
	Cost/ Valuation	Accumulated Depreciation and Accumulated Impairment	Carrying Value	Cost/ Valuation	Accumulated Depreciation and Accumulated Impairment	Carrying Value
Investment Property	397 972 720	-	397 972 720	397 972 720	-	397 972 720

#### Reconciliation of Investment Property - 2013

	Opening Balance	Fair Value Adjustments	Total
Investment Property	397 972 720	-	397 972 720

#### Reconciliation of Investment Property - 2012

	Opening Balance	Fair Value Adjustments	Total
Investment Property	397 972 720	-	397 972 720



# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

### 3. Property, Plant and Equipment

	2013			2012		
	Cost/ Valuation	Accumulated Depreciation and Accumulated Impairment	Carrying Value	Cost/ Valuation	Accumulated Depreciation and Accumulated Impairment	Carrying Value
Land	34 466 370	-	34 466 370	34 466 370	-	34 466 370
Buildings	33 931 917	-5 390 130	28 541 787	33 931 917	-4 261 427	29 670 490
Plant and Machinery	1	-	1	1	-	1
Furniture and Fixtures	6 632 899	-4 381 712	2 251 187	6 632 899	-3 434 155	3 198 744
Motor Vehicles	20 607 441	-14 382 651	6 224 790	20 607 441	-11 438 731	9 168 710
Office Equipment	1 418 283	-850 027	568 256	1 418 283	-666 655	751 628
IT Equipment	1 767 291	-1 204 408	562 883	1 502 948	-903 818	599 130
Bridges	48 188 375	-7 770 741	40 417 634	48 188 375	-6 164 462	42 023 913
Community Buildings	4 392 897	-532 035	3 860 862	3 771 081	-406 332	3 364 749
Roads, Storm Drains & Pavement	145 323 115	-23 325 377	121 997 738	145 323 115	-18 481 273	126 841 842
Bins and Containers	1 260 029	-737 837	522 192	1 260 029	-720 017	540 012
Reservoirs	4 824 702	-57 501	4 767 201	4 824 702	-38 334	4 786 368
Emergency Equipment	2 680 899	-1 054 886	1 626 013	1 262 898	-802 306	460 592
Sanitation Skips	178 200	-71 280	106 920	178 200	-71 280	106 920
High Mast Lights	53 816 305	-14 441 206	39 375 099	53 788 945	-9 521 309	44 267 636
Refuse Tanker	209 544	-146 103	63 441	209 544	-125 149	84 395
Recreational Facilities	1 125 603	-236 614	888 989	1 125 603	-182 908	942 695
Lanfill Site	1 831 645	-377 103	1 454 542	1 831 645	-269 359	1 562 286
Stadiums	6 410 965	-1 601 642	4 809 323	6 410 965	-1 281 094	5 129 871
Farms	20 428 214	-	20 428 214	20 428 214	-	20 428 214
Heritage Site	913 750	-	913 750	913 750	-	913 750
Sewerage, Water Network & Piping	95 303 022	-46 253 731	49 049 291	95 303 022	-36 723 429	58 579 593
Capital Works in Progress	53 347 965	-	53 347 965	37 083 128	-	37 083 128
Other Assets	3 919 010	-2 097 650	1 821 360	3 531 737	-1 656 183	1 875 554
<b>Total Assets</b>	<b>542 978 442</b>	<b>-124 912 634</b>	<b>418 065 808</b>	<b>523 994 812</b>	<b>-97 148 221</b>	<b>426 846 591</b>

### Property, Plant and Equipment Reconciliation - 2013

	Opening Balance	Additions	Transfers	Depreciation	Total
Land	34 466 370				34 466 370
Buildings	29 670 490			-1 128 703	28 541 787
Plant and Machinery	1	-			1
Furniture and Fixtures	3 198 744			-947 557	2 251 187
Motor Vehicles	9 168 710			-2 943 920	6 224 790
Office Equipment	751 628			-183 372	568 256
IT Equipment	599 130	264 343		-300 590	562 883
Bridges	42 023 913			-1 606 279	40 417 634
Community Buildings	3 364 749	621 816		-125 703	3 860 862
Roads, Storm Drains & Pavement	126 841 842	-		-4 844 104	121 997 738
Bins and Containers	540 012			-17 820	522 192
Reservoirs	4 786 368			-19 167	4 767 201
Emergency Equipment	460 592	1 418 001		-252 580	1 626 013
Sanitation Skips	106 920				106 920
High Mast Lights	44 267 636	27 360		-4 919 897	39 375 099
Refuse Tanker	84 395			-20 954	63 441
Recreational Facilities	942 695			-53 706	888 989
Lanfill Site	1 562 286			-107 744	1 454 542
Stadiums	5 129 871			-320 548	4 809 323
Farms	20 428 214				20 428 214
Heritage Site	913 750				913 750
Sewerage, Water Network & Piping	58 579 593			-9 530 302	49 049 291
Capital Works in Progress	37 083 128	16 264 837			53 347 965
Other Assets	1 875 554	387 273		-441 467	1 821 360
<b>Total Assets</b>	<b>426 846 591</b>	<b>18 983 630</b>	<b>-</b>	<b>-27 764 413</b>	<b>418 065 808</b>

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

### 3. Property, Plant and Equipment (continue)

#### Property, Plant and Equipment Reconciliation - 2012

	Opening Balance	Additions	Transfers	Depreciation	Total
Land	34 466 370	-	-	-	34 466 370
Buildings	30 694 688	106 866	-	-1 131 064	29 670 490
Plant and Machinery	1	-	-	-	1
Furniture and Fixtures	4 002 170	128 591	-	-932 017	3 198 744
Motor Vehicles	12 112 630	-	-	-2 943 920	9 168 710
Office Equipment	924 388	29 200	-	-201 960	751 628
IT Equipment	899 720	-	-	-300 590	599 130
Bridges	43 630 192	-	-	-1 606 279	42 023 913
Community Buildings	3 490 452	-	-	-125 703	3 364 749
Roads, Storm Drains & Pavement	131 796 251	-	-	-4 954 409	126 841 842
Bins and Containers	720 016	-	-	-180 004	540 012
Reservoirs	4 805 535	-	-	-19 167	4 786 368
Emergency Equipment	713 172	-	-	-252 580	460 592
Sanitation Skips	124 740	-	-	-17 820	106 920
High Mast Lights	46 996 245	-	-	-2 728 609	44 267 636
Refuse Tanker	105 349	-	-	-20 954	84 395
Recreational Facilities	799 593	199 382	-	-56 280	942 695
Lanfill Site	1 670 030	-	-	-107 744	1 562 286
Stadiums	5 450 419	-	-	-320 548	5 129 871
Farms	20 428 214	-	-	-	20 428 214
Heritage Site	913 750	-	-	-	913 750
Sewerage, Water Network & Piping	68 109 895	-	-	-9 530 302	58 579 593
Capital Works in Progress	18 476 711	18 606 417	-	-	37 083 128
Other Assets	2 317 021	-	-	-441 467	1 875 554
<b>Total Assets</b>	<b>433 647 552</b>	<b>19 070 456</b>	<b>-</b>	<b>-25 871 417</b>	<b>426 846 591</b>

#### Pledged as security

Leased vehicles as self-secured in that they are used as security for the loans which were taken to fund them. Carrying value of assets has been pledged as security.

#### Motor Vehicles

**4 444 438      4 444 438**

The terms of the agreement are such that the lessor would retain ownership of the vehicles until the loan is fully repaid. More details of the loan are disclosed under finance leases.

The municipality's obligations under finance leases are secured by the lessor's change over the leased assets. Refer note 14.

#### Assets subject to finance lease (Net carrying amount)

**4 444 438      4 444 438**

Motor Vehicles

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

### 4. Intangible Assets

	2013			2012		
	Cost/ Valuation	Accumulated Amortisation and Accumulated Impairment	Carrying Value	Cost/ Valuation	Accumulated Amortisation and Accumulated Impairment	Carrying Value
Computer Software	1 555 054	-419 185	1 135 869	1 555 054	-419 185	1 135 869

#### Reconciliation of Capital Commitments - 2013

	Opening Balance	Additions	Amortisation	Total
Computer Software	1 135 869	-	-	1 135 869

#### Reconciliation of Capital Commitments - 2012

	Opening Balance	Additions	Amortisation	Total
Computer Software	1 446 880	-	-311 011	1 135 869

#### Pledged as security

There are no intangible assets pledged as security.

### 5. Financial Assets By Category

The accounting policies for financial instruments have been applied to the line items below:

#### 2013

	Loans and Receivables	Fair Value Thru Surplus or Deficit - Held for Trading	Fair Value Thru Surplus or Deficit - Designated	Total
Receivables from exchange transactions (note 10)				
Other Receivables from non-exchange transactions				
Cash and Cash Equivalents				
Shares in Unit Trust				
Money Market Investments (note 45)				
	-	-	-	-

#### 2012

	Loans and Receivables	Fair Value Thru Surplus or Deficit - Held for Trading	Fair Value Thru Surplus or Deficit - Designated	Total
Receivables from exchange transactions (note 10)				
Other Receivables from non-exchange transactions				
Cash and Cash Equivalents				
Shares in Unit Trust				
Money Market Investments (note 45)				
	-	-	-	-

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
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### 6. Retirement Benefit Obligations

#### Defined Benefit Plan

#### Post Retirement Medical Aid Benefit

The municipality operates a funded post-employment health care defined benefit plans for qualifying employees. Employees of the municipality are members of Bonitas, Keyhealth, Samwumed, Discovery and Hosmed medical

We did not perform actuaries on the post retirement medical aid provision for the financial year 2013, for this reason we inflated the valuations for the last financial year with Consumer Price Index rate of 5.4%

The amounts recognized in the statement of financial position are as follows:

#### Carrying Value

Present value of the unfunded net liabilities in excess of plan assets	22 336 919	22 336 919
Non-Current Liabilities	22 336 919	22 336 919
Current Liabilities	-	-
	22 336 919	22 336 919

The municipality does not have assets set aside for post-employment medical aid funding that qualify as plan assets in terms of the requirements of IAS19. As such no value has been ascribed to the fair value of plan assets and no other disclosure has been done relating to plan assets.

Changes in the present value of the defined benefit obligation are as follows:

Opening Balance	22 336 919	19 471 990
Benefits Paid	-	-
Net Expense recognized in the Statement of Financial Performance	-	2 864 929
Closing Balance	22 336 919	22 336 919

#### Net Expense recognized in the Statement of Financial Performance

Current Service Cost		1 229 075
Interest Cost		1 597 270
Actuarial (gains) losses	-	38 584
Total Included in Employee Related Costs	-	2 864 929

#### Calculation of Actuarial gains and losses

Expected Benefit Payments		123 360
Actual Benefit Payments		-84 776
Total	-	38 584

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>6. Retirement Benefit Obligations (continue)</b>		
<b>Key Assumptions Used</b>		
The principal assumptions used for the purposes of the actuarial valuation on 28 February 2013 were as follows:		
Discount Rates Used	%	%
Net Discount Rate	%	%
Expected Increase in Salaries	%	%
Expected Increase in Healthcare costs	%	%
The expense for the current year was derived and discounted to determine the valuation for the financial period 2012/2013 which is an acceptable practice when valuing such defined plans. As such there are no key assumptions for the comparative period.		
<b>Demographic Assumptions:</b> Normal Retirement Age (65 years); Fully accrued age (65 years); Age between husband and wife (Active members - 4 years, Pensioners 4 years); Proportion married (Active members - 90%, Pensioners - actual married status used).		
<b>Decrement Assumptions:</b> Mortality (Active members: SA85 - 90, Pensioners: PA 90 - 92).		
<b>Data Assumptions:</b> The actual date of birth for pensioners spouses were not provided. As such the age difference between the husband and wife was assumed to be four years.		
<b>Continuation Percentages:</b> It was assumed that 100% of the deceased pensioners' spouses will continue with their membership.		
<b>Other Assumptions:</b> Assumed healthcare cost trends rates have a significant effect on the amounts recognized in surplus of deficit. One percentage point change in assumed healthcare cost trends rates would have the following effects:		
<b>Defined contribution plan</b> - It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to Pensions Fund Act exist for this purpose		
<b>The total economic entity contribution to pension schemes</b>	<b>14 787 079</b>	<b>14 390 632</b>
<b>The amount recognized as an expense for medical aid contributions</b>	<b>6 344 891</b>	<b>6 034 836</b>
Included in defined contribution plan information above, is the Multi-Employer Pension Fund contributions, which due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s), are accounted for as Defined Contribution Plans.		
<b>7. Shares &amp; Unit Trusts</b>		
The municipality has shares in Sanlam, which were obtained through the demutualization process. Furthermore, other investments in unit trusts are also maintained at Investec.		
Old Mutual		
Sanlam	605 177	605 177
Investec	3 393 947	8 181 748
<b>Total</b>	<b>3 999 124</b>	<b>8 786 926</b>

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>8. Inventories</b>		
Land	28 804 255	28 804 255
Consumable Stores	2 891 164	2 450 516
<b>Total</b>	<b>31 695 419</b>	<b>31 254 771</b>

### Inventory Pledged as Security

There were no security pledges made against inventory during the current and prior financial period.

## 9. Other Receivables from Non-Exchange Transactions

Property Rates	193 392 846	166 963 241
Provision for Bad Debts	-162 207 884	-159 775 178
<b>Net Balance</b>	<b>31 184 961</b>	<b>7 188 063</b>

### Movement in Provision

Balance at Beginning of Year	-159 775 178	-179 383 405
Expenditure during the year	-2 432 706	19 608 227
<b>Balance at End of Year</b>	<b>-162 207 884</b>	<b>-159 775 178</b>

### Other receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2012 and 28 February 2013 there were no amounts impaired in respect of debts less than 3 months overdue.

### The ageing of amounts past due but not impaired is as follows:

1 Month past due	6 451 348	5 570 791
2 Month past due	4 761 977	1 108 752
3 Month past due	19 971 637	508 519
<b>Total</b>	<b>31 184 961</b>	<b>7 188 062</b>

### Other Receivables from non-exchange transactions impaired

As of 30 June 2013, other receivables from non-exchange transactions amounting to R166 342 557 (2012: R159 775 178) were impaired and provided for.

## 10. Receivables from Exchange Transactions

Accrued Income	55 948	55 948
Health Subsidy Debtors	2 000	2 000
Staff Debtors	-	4 068
Sundry Debtors	6 552 409	7 827 954
Civil Contract Sessions	-	-768 661
Staff Contra	1 268 261	684 287
Other Debtors	374 096	3 843 588
Provision for bad debts	-5 750 842	-6 846 695
<b>Net Balance</b>	<b>2 501 871</b>	<b>4 802 489</b>

The debt is greater than 90 days

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>11. Consumer Debtors</b>		
<b>Gross Balances per Service</b>		
Water	118 695 558	101 358 101
Sewerage	45 119 116	41 240 310
Refuse	40 119 338	42 420 325
Interest Levied (on Consumer Debtors)	153 324 023	134 230 620
<b>Total</b>	<b>357 258 035</b>	<b>319 249 356</b>
<b>Less: Provision for debts impairment</b>		
Water	95 846 915	89 789 152
Sewerage	37 676 637	35 752 774
Refuse	33 349 776	38 315 861
Interest Levied (on Consumer Debtors)	131 495 027	120 422 879
<b>Total</b>	<b>298 368 355</b>	<b>284 280 666</b>
<b>Net Balances per Service</b>		
Water	22 848 644	11 568 949
Sewerage	7 442 479	5 487 536
Refuse	6 769 561	4 104 464
Interest Levied (on Consumer Debtors)	21 828 996	13 807 741
<b>Total</b>	<b>58 889 680</b>	<b>34 968 690</b>
<b>The ageing of debt not impaired per service:</b>		
<b>Water</b>		
Current (0 - 30 days)	5 777 500	7 592 468
31 - 60 days	4 830 130	1 837 636
61 - 90 days	12 241 014	2 138 845
	<b>22 848 644</b>	<b>11 568 949</b>
<b>Sewerage</b>		
Current (0 - 30 days)	1 520 380	1 582 335
31 - 60 days	1 239 732	1 274 712
61 - 90 days	4 682 368	2 630 489
	<b>7 442 479</b>	<b>5 487 536</b>
<b>Refuse</b>		
Current (0 - 30 days)	1 425 030	1 538 111
31 - 60 days	1 175 355	1 321 813
61 - 90 days	4 169 177	1 244 540
	<b>6 769 561</b>	<b>4 104 464</b>
<b>Interest Levied (on Consumer Debtors)</b>		
Current (0 - 30 days)	2 994 089	3 239 967
31 - 60 days	2 944 679	2 914 264
61 - 90 days	15 890 230	7 653 510
	<b>21 828 999</b>	<b>13 807 741</b>
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	284 280 666	270 216 222
Net contributions to provision	14 087 689	14 064 444
<b>Balance at end of the period</b>	<b>298 368 355</b>	<b>284 280 666</b>

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
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### 11. Consumer Debtors (continue)

#### Consumer debtors pledged as security

There were no pledges made against consumer debtors

#### Counsumer debtors past due but not impaired

As of 30 June 2013, consumer debtors amounting to R 306 910 977 (2012: R284 280 666) were impaired and provided for.

#### The ageing of amounts past due but not impaired is as follows:

1 Month past due	11 716 998	13 952 881
2 Month past due	10 189 896	7 348 425
3 Month past due	36 982 787	13 667 384
<b>Total</b>	<b>58 889 681</b>	<b>34 968 690</b>

### 12. Cash and Cash Equivalents

Cash and cash equivalents consist of:

Cash on hand	5 062	16 781
Bank overdraft	-11 586 341	-29 992 590
	<b>-11 581 279</b>	<b>-29 975 809</b>
Current assets	5 062	16 781
Current liabilities	-11 586 341	-29 992 590
	<b>-11 581 279</b>	<b>-29 975 809</b>

The municipality had the following bank accounts:

Account number / description	Bank Statement Balances			Cash Book Balances		
	28-Jun-13	30-Jun-12	30-Jun-11	28-Jun-13	30-Jun-12	30-Jun-11
Standard Bank - Current Account - Account number 030852595		5 658 854	1 567 895	-11 586 341	-29 992 590	-17 708 509
Petty Cash	-	-	-	5 062	16 781	7 413
<b>Total</b>	<b>-</b>	<b>5 658 854</b>	<b>1 567 895</b>	<b>-11 581 279</b>	<b>-29 975 809</b>	<b>-17 701 096</b>

### 13. Other Interest Bearing Liabilities

#### Held at amortised cost

##### DBSA Loans (Long Term Portion)

13 558 869 15 966 584

The loans carry interest rates varying between 5% and 15% per annum and are repayable over period ranging between 10 and 20 years. As at 28 February 2013 no amount was in arrears. These loans were used to fund the municipality's infrastructure assets. The loans are secured by the rental income from one of the municipality's investment property.

##### DBSA Loans (Short Term Portion)

2 652 000 2 524 638

The terms and conditions of the loans are as described above.

##### INCA (Long Term Portion)

14 481 022 15 821 022

The loans carry interest rates varying between 5% and 15% per annum and are repayable over period ranging between 10 and 20 years. As at 28 February 2013 no amount was in arrears. These loans were used to fund the municipality's infrastructure assets. The loans are secured by the municipality's income from assessment rates.

##### INCA (Short Term Portion)

1 340 000 1 298 273

The terms and conditions of the loans are as described above.

**32 031 891 35 610 517**



# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>13. Other Interest Bearing Liabilities (continue)</b>		
<b>Non-current liabilities at amortised cost</b>		
DBSA	13 558 869	15 966 584
INCA	14 481 022	15 821 022
	<b>28 039 891</b>	<b>31 787 606</b>
<b>Current liabilities at amortised cost</b>		
DBSA	2 652 000	2 524 638
INCA	1 340 000	1 298 273
	<b>3 992 000</b>	<b>3 822 911</b>
<b>Fair value of the financial liabilities carried at amortised cost</b>		
Bank Loans	32 031 891	35 187 857
<b>14. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	1 042 626	2 025 174
- in second to fifth year inclusive	10 461	983 891
	1 053 087	3 009 065
less: Future Finance Charges	122 501	209 723
<b>Present value of minimum lease payments</b>	<b>930 586</b>	<b>2 799 342</b>
<b>Present value of minimum lease payments due</b>		
- within one year	942 700	1 855 504
- in second to fifth year inclusive	10 331	943 838
	<b>953 031</b>	<b>2 799 342</b>

It is the municipality's policy to lease certain property, plant and equipment under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 10% (2012: 10%)

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer to note 3.

Leased vehicles are self-secured in that they are used as security for the loans which were used to fund them.

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>15. Unspent Conditional Grants and Receipts</b>		
<b>Unspent Conditional Grants and Receipts comprises of:</b>		
Municipal Infrastructure Grant (MIG)	36 991 615	31 151 731
Rural Water Grant	-	67 560
Finance Management Grant (FMG)	18 506	51 139
Municipal System Improvement Grant (MSIG)	289 731	218 319
Library Grant	-	-219 150
Satelite: First Ottoshoop	3 281 999	1 200 000
National Lottery Grant	251 509	693 000
Energy Demand Management	8 000 000	-
	<b>48 833 361</b>	<b>33 162 599</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	33 162 599	14 905 097
Net additions during the year (Receipts net of adjustments)	37 619 000	43 975 342
Income recognition during the year including VAT (Expenditure)	-21 948 238	-25 717 840
	<b>48 833 361</b>	<b>33 162 599</b>

See note 23 for reconciliation of grants from National/ Provincial Government

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

### 16. Provisions

#### Reconciliation of provisions - 2013

	Opening Balance	Additions	Interest Cost	Current Service Costs	Acturial (gains) losses	Actual benefit payments	Total
Environmental Rehabilitation - Landfill Site	2 671 907	-	-	-	-	-	2 671 907
Botshelo Water Debt	-	34 954 800	-	-	-	-	34 954 800
Training Fund Reserve	704 304	-704 304	-	-	-	-	-
Long Service Award	12 507 800	-	-	-	-	-	12 507 800
	<b>15 884 011</b>	<b>34 250 496</b>	-	-	-	-	<b>50 134 507</b>

#### Reconciliation of provisions - 2012

	Opening Balance	Additions	Interest Cost	Current Service Costs	Acturial (gains) losses	Actual benefit payments	Total
Environmental Rehabilitation - Landfill Site	2 428 458	243 449	-	-	-	-	2 671 907
Legal Proceedings	7 967 520	-	-7 967 520	-	-	-	-
Training Fund Reserve	-	704 304	-	-	-	-	704 304
Long Service Award	10 191 910	-	-	2 315 890	-	-	12 507 800
	<b>20 587 888</b>	<b>947 753</b>	<b>-7 967 520</b>	<b>2 315 890</b>	-	-	<b>15 884 011</b>

	2013	2012
Non-current liabilities	43 434 507	9 235 796
Current liabilities	6 700 000	6 648 215
	<b>50 134 507</b>	<b>15 884 011</b>

#### Landfil Sites

The environmental rehabilitation landfil site provision as at 30 June 2013 was based on the prior year's balance plus 10%

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>16. Provisions (continued)</b>		
<b>Long Service Award</b>		
<p>The municipal employees, excluding those with fixed term contracts, who have been with the employer for a certain period of time are entitled to additional leave days (in addition to normal leave) as recognition for long service with the municipality. The additional leave (long service awards) is paid out when the employee has reached the required continued period of service.</p> <p>The Long Service Award computations were calculated for the first time as at 30 June 2011. For that period there was no comparative figures for the key assumptions and sensitivity analysis.</p> <p>The number of leave days payable for each milestone (number of years served) are detailed below:</p>		
10 years service	10	10
15 years service	20	20
20 years service	30	30
25 years service	30	30
30 years service	30	30
35 years service	30	30
40 years service	30	30
45 years service	30	30
<p><b>The following key assumptions were used in the valuation of provisions:</b></p>		
Discount rate (%)		9
Award inflation (%)		7
Mortality (SA-aggregate)		88
Normal retirement age (years)		65
Average number of resignations per 1000 members		73
Average number of ill-health retirement per 1000 members		3
<b>17. Trade and other payables</b>		
Debtors with credit balances	21 288 391	21 394 191
Accrued bonus	-	-
Accrued Long Service Award	11 318 312	11 205 962
Sundry creditors	8 520 660	4 790 142
Accrued leave pay	16 670 300	14 674 860
Trade payables	37 777 199	42 639 823
Unallocated receipts	5 090 000	4 260 280
	<b>100 664 862</b>	<b>98 965 258</b>
<b>18. VAT payable</b>		
Balance due	10 858 912	11 620 796
<b>19. Consumer deposits</b>		
Other deposits	3 730 687	3 396 307
Water	1 505 541	1 508 804
	<b>5 236 228</b>	<b>4 905 111</b>

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>20. Revenue</b>		
Property rates	105 664 338	97 628 211
Service charges	106 523 941	91 651 726
Rental of facilities & equipment	829 204	3 423 214
Interest received - trading	33 604 196	29 718 851
Fines	2 678 817	2 419 237
Licences and permits	4 833 417	5 102 711
Government grant & subsidies	154 461 909	150 446 222
Other income	7 638 445	4 644 241
Fair Value Adjustment	-	-
Miscellaneous revenue	29 586	73 548
	<b>416 263 853</b>	<b>385 107 961</b>

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	106 523 941	91 651 726
Rental of facilities & equipment	829 204	3 423 214
Interest received - trading	33 604 196	29 718 851
Licences and permits	4 833 417	5 102 711
Other income	7 638 445	4 644 241
Miscellaneous revenue	29 586	73 548
	<b>153 458 789</b>	<b>134 614 291</b>

The amount included in revenue arising from non-exchange transactions are as follows:

### Taxation revenue

Property rates	105 664 338	97 628 211
Fines	2 678 817	2 419 237

### Transfer revenue

Grant and Subsidies	154 461 909	150 446 222
Fair Value Adjustment	-	-
	<b>262 805 064</b>	<b>250 493 670</b>

## 21. Property rates

General Assessment Rates	142 061 859	98 407 639
Less: Income forgone	-36 397 520	-779 428
	<b>105 664 338</b>	<b>97 628 211</b>

### Valuations

Residential	3 751 714 265	3 643 966 734
Commercial	1 378 314 124	963 234 644
State	1 455 109 426	1 477 106 326
Industrial	398 331 750	304 568 215
Small holdings and farms	1 072 667 845	1 069 407 845
Creche	8 020 000	8 400 000
Guest Houses	59 131 500	55 190 000
Other	774 204 129	723 491 962
	<b>8 897 493 039</b>	<b>8 245 365 726</b>

Valuations on land and buildings are performed every four years. The latest general valuation came into effect on 1 July 2011. Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions.

# Mafikeng Local Municipality

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
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### 20. Property Rates (continued)

A general rate of 0.105 cents per rand (2011: 0.105 cents per rand) is applied to property valuations to determine assessment rates. Discounts of 85% (Residential), 60% (Business/ Commercial), 60% (Industrial) and 60% (Agricultural) (2011: 85% (Residential), 60% (Business/Commercial), 80% (Industrial) and 85% (Agricultural). Qualifying pensioners were granted a further 80 - 85% rebate (2011: 9%) are granted to residential and state property owners. For residential properties, the R40,000 is non-rateable (rebate). Thus, the discount for such properties is calculated after deducting the rebate.

Rates are levied on a monthly basis. Interest is levied on rates not paid by the due date using the effective interest rate method (current prime rate plus 1%).

### 21. Service Charges

Water Sales	69 751 594	56 611 892
Sewerage	19 115 800	17 749 816
Refuse Removal	17 656 547	17 290 018
	<b>106 523 941</b>	<b>91 651 726</b>

The following general rates have been approved by Council:

Differentiated rates were applied as follows, namely, impermissible rate for residential was first R40,000 for all residential properties.

Description	Rate	Discount %	Rebate
(1) Residential	0.005	100%	R 40,000
(2) RDP	0.005	100%	-
(3) Pensioners	0.005	80%	-
(4) Agricultural Residential	0.005	80%	-
(5) Farms	0.00125	75%	-
(6) Government (Business, Office, Ottoshop, Park & Residential)	0.045	100%	-
(7) Church	0.018	100%	-
(8) Business	0.018	-	-
(9) Creche	0.018	-	-
(10) Industrial	0.018	-	-
(11) Guesthouse 1,2,3	0.018	25%	-
(12) Municipal	0.045	100%	-

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>23. Government grants and subsidies</b>		
Equitable share	121 440 000	109 725 000
EPWP Grant	5 732 000	4 047 000
National Lottery	441 491	-
Health Subsidy - District Municipality	-	712 564
Library Grant	1 408 366	889 150
Municipal Systems Improvement Grant (MSIG)	728 588	-
Finance Management Grant (FMG)	1 407 633	1 990 828
Municipal Infrastructure Grant (MIG)	19 479 116	19 025 044
Premier Project: Cleaning Subsidy	2 339 155	-
Firestation Grant	1 418 001	-
Skills Development Refund	1 478 162	-
Parks Amenities Subsidy	-	56 636
District Municipality Subsidy	-	2 500 000
Rural Water Grant	-	3 500 000
Rural Waste	67 560	4 798 863
Health Service Subsidy	-	3 201 137
	<b>155 940 071</b>	<b>150 446 222</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigent consumers receive a subsidy of 6 kilolitres of water per month which is funded from the grant.

### Municipal Infrastructure Grant (MIG)

Balance of Unspent Grant at beginning of year	31 151 731	14 795 776
Current year receipts	25 319 000	35 381 000
Conditions met - grant amount transferred to revenue	-17 086 944	-19 025 044
Conditions met - VAT	-2 392 172	-
	<b>36 991 615</b>	<b>31 151 732</b>

The grant was used to fund infrastructure related projects (mainly as part of the service delivery). Capitalised projects funded by this grant are included in property, plant & equipment whilst the unspent portion of the grant is included in current liabilities (see note 15).

No grant was withheld during the current period.

### Rural Water Support Grant

Balance of Unspent Grant at beginning of year	67 560	67 560
Current year receipts	-	-
Conditions met - grant amount transferred to revenue	-67 560	-
Conditions met - VAT	-	-
	<b>-0</b>	<b>67 560</b>

Conditions still to be met remain liabilities (see not 15)

This grant is mainly used in assisting the municipality in supplying water to the rural areas. This includes the purchase and installation of equipment used in supplying water to the various communities.

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
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### 23. Government grants and subsidies (continued)

#### Finance Management Grant (FMG)

Balance of Unspent Grant at beginning of year	51 139	41 760
Current year receipts	1 375 000	2 000 207
Conditions met - grant amount transferred to revenue	-1 407 633	-1 990 828
Conditions met - VAT	-	-
	<b>18 506</b>	<b>51 139</b>

The grant is mainly used for promoting and supporting reforms in financial management by building capacity in the municipality to implement the MFMA and progressive financial reporting.

Portion of grant which conditions still to be met are included in current liabilities.

No grant was withheld during the current period.

#### Municipal System Improvement Grant (MSIG)

Balance of Unspent Grant at beginning of year	218 319	-
Current year receipts	800 000	830 000
Conditions met - grant amount transferred to revenue	-728 588	-611 681
Conditions met - VAT	-	-
	<b>289 731</b>	<b>218 319</b>

The grant is meant to assist the municipality in the improvement of governance system related transactions.

Portion of grant which conditions still to be met are included in current liabilities.

#### Library Grant

Balance of Unspent Grant at beginning of year	-219 150	-
Current year receipts	-	670 000
Conditions met - grant amount transferred to revenue	219 150	-889 150
	<b>-0</b>	<b>-219 150</b>

This grant is mainly used in assisting the municipality with services offered at public libraries. The services covers capacitating the municipality with human capital and computer hardware/software.

Portion of grant which conditions still to be met are included in current liabilities.

#### Satellite: Fire Ottoshoop

Balance of Unspent Grant at beginning of year	1 200 000	-
Current year receipts	3 500 000	1 200 000
Conditions met - grant amount transferred to revenue	-1 418 001	-
	<b>3 281 999</b>	<b>1 200 000</b>

This grant is mainly used to provide satellite fire station at Ottoshoop.

Portion of grant which conditions still to be met are included in current liabilities.



# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>23. Government grants and subsidies (continued)</b>		
<b>National Lottery Grant</b>		
Balance of Unspent Grant at beginning of year	693 000	-
Current year receipts	-	693 000
Conditions met - grant amount transferred to revenue	-441 491	-
	<b>251 509</b>	<b>693 000</b>

This grant is mainly used in assisting the municipality in delivering sports development projects.

Portion of grant which conditions still to be met are included in current liabilities.

### Electricity Demand Management Grant

Balance of Unspent Grant at beginning of year	-	-
Current year receipts	8 000 000	-
Conditions met - grant amount transferred to revenue	-	-
	<b>8 000 000</b>	<b>-</b>

This fund has been granted by the Department of Energy to the municipality to used in electricity efficiency usage programme

### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming financial years.

## 24. Other Revenue

Fees earned	1 468 900	1 117 684
Commissions received	324 950	300 030
Unwound interest income - Long term debtors	-	-
Recoveries	441 733	258 741
Other income	73 816	55 439
Building plan fees	265 712	302 720
Blocked drains revenue	35 950	149 574
	<b>2 611 060</b>	<b>2 184 188</b>

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>25. General Expenses</b>		
Advertising	836 414	998 307
Auditors fees	2 250 586	2 804 286
Bank charges	675 016	969 186
Chemicals	409 662	598 031
Cleaning	481 609	449 690
Consulting and professional fees	5 337 978	2 732 373
Delivery expenses	-	81 173
Disaster Management	806 193	486 851
Disposal site expenditure	2 671 195	1 997 709
Donations	26 316	6 579
Finance Management Grant Expenses	1 458 473	1 676 005
Electricity & Water	4 484 943	4 348 896
Entertainment	1 217 213	614 365
Extended public works programme	8 955 056	8 234 496
Fines and penalties	-	24
System Improvement	744 738	422 493
Free Basic Water & Electricity	4 690 941	4 535 059
Fuel and oil	2 739 785	2 693 476
Insurance	472 236	431 985
Laboratory related costs	41 250	45 000
Lease rentals on operating lease	1 192 122	1 005 184
Library Grant	1 747 540	889 150
Licence vehicles	317 962	300 050
Magazines, books and periodicals	124 887	123 510
Materials	532 269	365 360
Medical expenses	103 654	115 293
Meter reading	349 996	567 510
Other expenses	5 012 248	2 818 650
Post Employment Benefit	-	3 856 373
Postage and courier	771 596	640 389
Printing and stationary	1 941 640	1 338 878
Project maintenance costs	2 562 996	342 856
Provisions	10 423 324	2 712 263
Protective clothing	473 993	670 168
Royalties and licence fees	1 456 621	1 448 623
Security (Guarding of municipal property)	4 694 047	4 555 098
Skills Development Levy	806 809	825
Staff welfare	30 545	-
Subscriptions and membership fees	3 041 047	3 293 786
Telephone and fax	2 271 394	3 132 553
Training	890 576	777 484
Travel - local	1 591 755	985 282
MIG Info System Support	-	10 797
Unwound interest	-	243 450
Valuation Roll	1 553 036	100 366
Ward Committee Expenses	3 505 653	2 203 008
	<b>83 695 312</b>	<b>66 622 890</b>

## 26. Operating surplus (deficit)

Operating surplus (deficit) for the year is stated after accounting for the following:

### Operating lease charges

Lease rentals on operating lease - Other  
Contractual amounts

Depreciation on property, plant and equipment  
Employee costs

	1 192 122	1 005 184
Depreciation on property, plant and equipment	27 764 412	26 182 428
Employee costs	188 866 481	181 971 764

## Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

### Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>27. Personnel Expenses</b>		
Basic Salary	130 956 853	125 298 043
Bonus	7 175 783	6 394 035
Medical Aid - Company contributions	6 344 891	6 335 479
UIF	642 774	597 343
Post Retirement Benefit - Accrual Loss	-	762 468
Long service award - current	-	-
Post Retirement Benefit - Interest	-	2 471 517
Post Retirement Benefit - Current service costs	-	1 946 834
Overtime payment	5 569 095	5 975 928
Allowances locomotion	4 521 546	192 463
Housing benefits and allowance	564 069	646 531
Pension fund - company contributions	14 787 079	14 558 917
	<b>170 562 091</b>	<b>165 179 558</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	784 087	345 661
Car Allowance	242 324	56 098
Other Allowance	246 633	303 617
	<b>1 273 044</b>	<b>705 376</b>
<b>Remuneration of Chief Financial Officer</b>		
Annual Remuneration	627 700	233 475
Car Allowance	198 308	-
Other Allowance	215 075	515 687
	<b>1 041 083</b>	<b>749 162</b>
<b>Remuneration of Corporate Services Director</b>		
Annual Remuneration	627 145	507 468
Car Allowance	166 989	85 200
Other Allowance	206 378	249 053
	<b>1 000 512</b>	<b>841 721</b>
<b>Remuneration of Planning and Development Director</b>		
Annual Remuneration	450 919	330 179
Car Allowance	-	-
Other Allowance	-	416 176
	<b>450 919</b>	<b>746 355</b>
<b>Remuneration of Infrastructure Services Director</b>		
Annual Remuneration	565 191	330 179
Car Allowance	176 955	-
Other Allowance	178 561	298 085
	<b>920 707</b>	<b>628 264</b>

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>27. Personnel Expenses (continued)</b>		
<b>Remuneration of Community Services Director</b>		
Annual Remuneration	517 008	732 630
Car Allowance	-	-
Other Allowance	238 114	94 018
	<b>755 122</b>	<b>826 648</b>
<b>Remuneration of Public Safety Director</b>		
Annual Remuneration	630 390	394 129
Car Allowance	172 601	113 465
Other Allowance	58 629	324 808
	<b>861 620</b>	<b>832 402</b>
<b>28. Remuneration of councillors</b>		
Executive Mayor	726 898	685 111
Mayoral Committee Members	3 382 106	3 889 316
Speaker	559 701	536 723
Councillors	13 161 955	11 325 399
Chief Whip	473 730	355 657
	<b>18 304 390</b>	<b>16 792 206</b>
<b>In-kind benefits</b>		
The Executive Mayor, Speaker, Single Whip of Council and Mayoral Committee Members are full-time and are provided with office space at the cost of the council. In addition, all councillors are paid travelling allowances for trips outside Mafikeng. The Executive Mayor, Speaker and Single Whip of Council are also provided with secretarial support at the cost of the Council.		
The Executive Mayor has been provided with Council owned vehicle for the use on official duties. The Mayor's driver also act as a bodyguard		
<b>29. Debt impairment/ (Correction of Impairment)</b>		
Debt impaired	20 390 554	9 676 324
Debtors written-off during the year amounted to R0.00 (2012: R0.00)		
<b>30. Investment Revenue</b>		
Interest Earned (Bank & Investment Accounts)	2 917 571	2 460 053
<b>31. Depreciation and Amortisation</b>		
Depreciation	27 764 412	26 182 428
<b>32. Finance Costs</b>		
Interest paid	3 049 092	3 893 727

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>33. Auditors' expenses</b>		
Auditors' Fees	2 250 586	2 804 286
<b>34. Rental of facilities and equipment</b>		
Rental of facilities and equipment	753 089	3 423 214
<b>35. Bulk purchases</b>		
Water	47 090 546	51 175 554
<b>36. Cash generated from operations</b>		
Surplus (deficit)	13 836 523	12 861 849
<b>Adjustment for:</b>		
Depreciation and amortisation	27 764 412	26 182 428
Impairment deficit	-	-
Debt impairment	20 390 554	9 676 324
Movements in retirement benefit assets and liabilities	-	2 864 929
Movements in provisions	34 250 496	-5 408 181
Other non-cash items	8 868 228	915 631
<b>Changes in working capital:</b>		
Inventories	-440 648	106 516
Receivables from exchange transactions	4 880 962	-3 947 505
Other receivables from non-exchange transactions	-23 996 898	4 347 879
Consumer debtors	-44 311 544	-27 214 964
Trade and other payables	-4 121 398	4 922 855
VAT	-871 353	-3 983 564
Unspent conditional grant and receipts	15 670 762	18 961 806
Consumer deposits	331 117	789 119
	<b>52 251 213</b>	<b>41 075 122</b>
<b>37. Commitments</b>		
<b>Authorized capital expenditure</b>		
<b>Approved and contracted for:</b>		
Property, plant and equipment		7 422 760
<b>Not yet contracted for but authorized:</b>		
Property, plant and equipment	36 991 615	32 873 755

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated and grant from provincial and national government

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>38. Contingencies</b>		
<b>Balances from Attorneys Correspondences</b>		
Service provider cases	22 754 530	89 376
Labour related cases	3 273 215	162 805
Eviction cases	-	25 280
Property loss/ damage cases	3 486 033	1 486 033
Malicious proceedings	100 000	100 000
	<b>29 613 778</b>	<b>1 863 494</b>

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

2013

2012

### 39. Related parties

During the year, there were no related parties transactions. The municipality has various processes in place to identify and note any related party transactions. These processes range from disclosure by bidders on the bid documents (MB4) to maintenance of a conflict of interest register. For councillors, the disclosure register is kept in the Office of the Speaker whilst for other senior managers it is kept by the Corporate Services Directorate.

### 40. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks such as market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by the municipality under policies approved by the Council.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

#### Interest rate risk

As the municipality has no significant interest-bearing assets, its income and operating cash flows are substantially independent from changes in market interest rates

The municipality's interest rate risk arises from long-term borrowings. Borrowings taken at variable rates expose the municipality to cash flow interest rate risk. Borrowings taken at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain borrowings in fixed and variable rate instruments, all denominated in the Rand.

#### Sensitivity analysis to interest rate changes

The calculations below are based on the 30 June 2013 balances on Leases and Debtors (Receivables from Exchange and Non-exchange transactions)

- All loans are charged at fixed interest rates. Interest rate fluctuations will therefore have no impact on expenditure
- Leases are subject to interest rates change. An increase or decrease between 1% - 2% will result in an increase or decrease in expenditure of R0.00 to R0.00 per annum.
- 1% to 2% interest increase or decrease on outstanding debtors will amount to increased or decreased interest revenue of R0.00 to R0.00 per annum
- The surplus (if increased) or deficit (if decreased) will vary between R0.00 to R0.00 per annum

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing.

Trade receivables comprise a widespread customer base. The municipality cannot, however, limit the rate at which it can offer services to its stakeholders as it has a constitutional mandate to offer these services. Credit control measures are therefore implemented within the approved municipal policies and relevant acts governing municipal operations

#### Cash and Cash Equivalents

Mafikeng local municipality limits its credit risk by only banking with registered financial institutions in terms of the Banks Act, 94 of 1990 operating in South Africa.

#### Investments

It is the municipality's practice to limit its credit risk by only investing in registered banks in terms of the Banks Act, 94 of 1990. Given the high credit ratings of these financial institutions the municipality does not expect any counterparty to fail to meet its obligation

#### Financial instrument

Receivables from exchange transactions	2 501 871	4 802 489
Consumer debtors	58 889 680	34 968 690
Shares & Unit Trusts	3 999 124	3 869 420
Money Market Investments	46 152 781	33 470 434
Cash and cash equivalents	5 062	16 781

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>41. Unauthorized expenditure</b>		
Opening Balance	111 809 414	87 457 118
Current Year Expenditure - Employee Costs		-
Current Year Expenditure: Debt Impairment		-
Current Year Expenditure: Depreciation		17 696 742
Current Year Expenditure: Bulk purchases		6 655 554
Prior Year Unauthorised Expenditure		-
Less Amount Condoned		-
	<b>111 809 414</b>	<b>111 809 414</b>

The foregoing expenditure was approved by Council for condonement in its meeting held on the 28th of February 2012.

Comparative information could not be disclosed on a line by line basis as in the prior year, the basis used to prepare the budget was different from the basis used to prepare the annual financial statements. As such, a reconciliation statement of the budgeted position and the actual performance was disclosed (as required by GRAP Framework in the previous period).

Measures are in place to seek council approval for the condonement of prior year unauthorised expenditure.

## 42. Fruitless and wasteful expenditure

Opening balance	4 442 208	22 686
Add: Fruitless and Wasteful Expenditure- current year: SARS PAYE Penalties	-	-
SARS Penalties interest	-	-
SARS UIF Penalties	-	-
SARS UIF Penalties interest	-	-
SARS SDL Penalties	-	-
SARS SDL Penalties interest	-	-
Interest Eskom	73 496	50 517
Other	10 372	4 369 005
Less: Amounts condoned		-
	<b>4 526 076</b>	<b>4 442 208</b>

Include particulars of any criminal or disciplinary steps taken as a consequence of above expenditure

### (1) Construction Industry Development Board (CIBD):

Enquiry against municipality on allegations of having failed to comply CIBD Regulations in the procurement process relating to a tender resulting in a claim of R 106,476.00 which was paid after a plea of guilty. A fine of R 30, 000,00 was imposed and this matter was finalised.

### (2) Africanism Building & Civils Versus Mafikeng Local Municipality:

Action for recovery of monies arising out of a tender amounting to R 89,376.00 is still to be paid. This matter was defended . At this stage there is consultation scheduled for drawing of plea. This matter is still pending.

## 43. Irregular expenditure

Opening balance	75 288 561	52 183 967
Add: Irregular Expenditure - current year	18 299 089	23 104 594
Less: Amounts condoned		-
	<b>93 587 650</b>	<b>75 288 561</b>



# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>44. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Water Losses</b>		
Units bought (kl)	10 714 851	12 104 011
Units sold (kl)	-12 655 212	-11 132 277
Units held in resevoir at 30 June 2013		-
<b>Units lost in distribution</b>	<b>-1 940 361</b>	<b>971 734</b>
Units lost in distribution	-	971 734
Average cost per kl sold		4
<b>Monetary Loss in distribution</b>		<b>4 353 368</b>
Percentage loss	-	8
Revenue per (kl) sold	11	8
No. of meters	14 452	14 151
No. of stands	19 265	19 265
The municipality purchases water from the local water service authority and sells to its residents. During the current year they bought 10 714 851 kilolitres (2012: 12 104 011), sold 12 655 212 kl (2011: 11 132 277) and measured .... kiloletres retained in its resevoirs as at 30 June 2013 resulting in water losses of ..... in kilolitres. The losses are attributable to illegal connections and burst		
<b>Audit Fees</b>		
Opening balance	807 862	3 207
Current year fee		2 804 286
Amount paid - current year	-2 250 586	-1 999 631
	<b>-1 442 724</b>	<b>807 862</b>
<b>PAYE and UIF</b>		
Opening balance	1 580 719	1 750 078
Current year costs		23 480 233
Amount paid - current year		-23 649 592
	<b>1 580 719</b>	<b>1 580 719</b>
<b>Pension and Medical Aid Contributions</b>		
Opening balance	-	-
Current year costs	21 131 970	20 894 396
Amount paid - current year	-21 131 970	-20 894 396
	<b>-</b>	<b>-</b>
<b>VAT</b>		
VAT payable	10 858 912	11 620 796
The municipality is registered for VAT on a cash basis. As such VAT is claimed or paid on receipt of payment or settlement of the transaction, respectively.		
All VAT returns have been submitted by the due date throughout the year.		
<b>Contracted Services</b>		
Domestic Waste Removal	5 002 447	6 657 126
Other Contracors	-	-
	<b>5 002 447</b>	<b>6 657 126</b>
The municipality entered into an agreement with the Department of Environmental Affairs and Tourism (DEAT) to jointly waste removal services to the surrounding communities. In terms of the agreement signed in June 2009 DEAT will initially fund the project in full. Their funding component will reduce on an equal graduating scale to no funding by the end of the third year. To be awarded -refer to contract		

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
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### 44. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at:

##### 30 June 2013

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Ngqobe M	3 383	98 279	101 662
Councillor Sephoti M W	1 262	28 569	29 831
Councillor Mtunzi D	565	794	1 360
Councillor Tabane P M	439	837	1 276
	<b>5 649</b>	<b>128 480</b>	<b>134 128</b>

##### 30 June 2012

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Mtunzi D	216	951	1 167
Councillor Moletse G M	489	32 407	32 896
Councillor Sephoti M W	855	40 031	40 886
Councillor Ngqobe M	1 679	96 572	98 251
Councillor Ngqobe M	506	23 290	23 796
	<b>3 745</b>	<b>193 251</b>	<b>196 996</b>

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

##### 30 June 2013

	Highest outstanding amount	Aging (in days)
Councillor Ngqobe M	98 279	90
Councillor Sephoti M W	28 569	90
Councillor Mtunzi D	794	90
Councillor Tabane P M	837	90
	<b>128 480</b>	<b>360</b>

##### 30 June 2012

	Highest outstanding amount	Aging (in days)
Councillor Ngqobe M	96 572	90
Councillor Sephoti M W	40 031	90
Councillor Moletse G M	32 407	90
Councillor Ngqobe M	32 407	90
Councillor Mtunzi D	951	90
	<b>202 368</b>	<b>450</b>

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

	2013	2012
<b>45. Money Market Investments</b>		
ABSA	-	20 065
FNB	-	24 048
Standard Bank	41 495 233	8 644 827
Nedbank	3 900 000	19 111 179
ABSA (Collateral security)	134 970	130 231
Nedbank (Collateral security)	622 578	622 578
	<b>46 152 781</b>	<b>28 552 928</b>

Collateral deposits for staff housing loans

Included in other fixed deposits above are fixed deposits with a carrying value of R0,00 million (2012: R0,073 million), which were pledged as security deposits for securing staff home loans with financial institutions.

These pledges are repaid as soon as the employees' outstanding home loan balance is below 80% of the approved loan amount. The Entity's exposure to risk is minimised by an assurance policy taken out by the employee and ceded to the Entity to cover the guaranteed deposit

### 46. Housing Infrastructure Grant

Opening Balance	3 470 046	3 470 046
Income for the year	-	-
Expenses for the year	-	-
<b>Closing Balance</b>	<b>3 470 046</b>	<b>3 470 046</b>

### 47. Government grant reserve

Opening Balance	75 516 102	75 516 102
Income for the year	-	-
Expenses for the year	-	-
<b>Closing Balance</b>	<b>75 516 102</b>	<b>75 516 102</b>

### 48. Insurance reserve

Opening Balance	63 987	-
Income for the year	33 692	63 987
Expenses for the year	-19 884	-
<b>Closing Balance</b>	<b>77 795</b>	<b>63 987</b>

## Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

### Notes of the Financial Statements (Figures in Rand)

	2 013.00	2012
<b>49. Prior Year Adjustments and Errors</b>		
Adjustment of consumer debtors opening balances	-8 121 410.05	
Lease liability redeemed per bank confirmation not recognized	22 444.84	
Capital expenses duplicated	-768 374.83	
Adjustment of investment opening balance per bank confirmation	877.33	
Adjustment of investment opening balance per bank confirmation	-291 792.90	
Correction understated loans redemption	-156 878.92	
Correction overstated loans redemption	419 407.39	
Billing intergration adjustments	-8 688.40	
Billing intergration adjustments	36 187.51	

# Mafikeng Local Municipality

Financial Statements for the term ending 30 June 2013

## Notes of the Financial Statements (Figures in Rand)

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### 50. New standards and interpretations

#### 50.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<input type="checkbox"/> GRAP 6: Consolidated and Separated Financial Statements	Unknown	No significant impact is expected
<input type="checkbox"/> GRAP 7: Investment in Associate	01 April 2013	No significant impact is expected
<input type="checkbox"/> GRAP 8: Interest in Joint Ventures	Unknown	No significant impact is expected
<input type="checkbox"/> GRAP 18: Segment Reporting	Unknown	No significant impact is expected
<input type="checkbox"/> GRAP 24: Presentation of Budget Information in Financial Statements	01 April 2012	No significant impact is expected
<input type="checkbox"/> GRAP 103: Heritage Assets	01 April 2012	No significant impact is expected
<input type="checkbox"/> GRAP 105: Transfer of Functions Between Entities Under Common Control	Unknown	No significant impact is expected
<input type="checkbox"/> GRAP 106: Transfers of functions between entities not under common control	Unknown	No significant impact is expected
<input type="checkbox"/> GRAP 107: Mergers	Unknown	No significant impact is expected